

MARKSCHEME

May 2006

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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1. (a) **Outline the purpose of a Mission Statement?** **[4 marks]**

The purpose of a mission statement is to convey to everyone involved with the firm the underlying philosophy of the firm, so that there is a clear direction and common understanding in all the actions taken by the people involved in the firm. It can also be used as a marketing, promotional and recruitment tool.

[4 marks]

The answer includes the fact that a Mission Statement serves all stakeholders, giving them a sense of direction; it highlights that a Mission Statement is more than an aim or an objective.

[2 to 3 marks]

The purpose of a Mission Statement is explained, but only in terms of general aims or objectives.

[1 mark]

A brief statement stating it is an aim and/or objective, but not really clarifying a purpose.

(b) **Explain two advantages and two disadvantages for Electrical Solutions plc of owning a subsidiary such as *SunGen Ltd.*** **[8 marks]**

Advantages

- higher profits as a result of higher turnover
- possibility of reshuffling staff and maximizing the potential of the workers
- diversification will give safety to the firm
- it can supply itself, therefore securing a market for Electrical Solutions plc
- likewise, *SunGen Ltd* can buy cheaper supplies from its parent firm
- financial advantages, greater capacity to take loans from banks
- independent firms (each is a company) means that there are no commitments from the parent firm to the losses of the subsidiary
- other economies of scale.

Candidates can mention other advantages and if properly explained and supported they should be credited.

Disadvantages

- need to use funds for start up capital that has an opportunity cost (cannot be used by the parent firm)
- funding the subsidiary with their cash reserves
- if the subsidiary does poorly and it is known to be related to the parent firm, the image of the parent firm can be affected negatively (pitchfork effect)
- transferring good employees to the subsidiary might mean that the parent firm surrenders efficient people
- other diseconomies of scale.

Candidates can mention other disadvantages and if properly explained and supported they should be credited.

Award **[2 marks]** for each relevant advantage and disadvantage adequately explained (up to a maximum of **[8 marks]**). Award only **[1 mark]** for each advantage or disadvantage merely listed.

2. (a) **Catherine and Greg are suggesting that *SunGen Ltd* should have a flatter organizational structure. Describe two advantages and two disadvantages of a flatter organizational structure.** **[6 marks]**

Flat organizations have the following advantages:

- communication flows faster
- people feel empowered since they are more involved with decision making
- they are cheaper: less money is spent on middle manager positions
- efficient when firms are small and the staff is highly involved with the product/production/mission.

Disadvantages:

- staff might lack direction
- communication might fail or be distorted
- decisions do not reach all staff on time resulting in delays of production (as mentioned in the case study)
- decisions might take longer if consensus is sought
- the staff may be demotivated by the lack of promotion, opportunities
- more people in each level – greater span of control

[5 to 6 marks]

A clear, detailed and balanced description of two advantages and two disadvantages.

[3 to 4 marks]

A reasonable description which may consider less than two advantages and disadvantages. At the bottom of the band this may tend towards listing, or either advantages or disadvantages are not included.

[1 to 2 marks]

A brief and general answer.

- (b) **Using appropriate motivational theories discuss the changes to workers' contracts and the incentives programme proposed by Catherine and Greg.** **[10 marks]**

Catherine and Greg are considering making workers' contracts more flexible adjusting their work hours to demand, and some workers will be given temporary contracts. These measures will remove the security aspect from their jobs and move workers to a different level in Maslow's hierarchy of needs. It will also bring conflict into the firm since not all workers will necessarily be treated in the same manner. They might not all be asked to work the same number of hours. Guaranteeing workers a certain number of hours would be seen by Herzberg as a hygiene factor. Therefore, if the hours are there, the workers will take them for granted, yet losing a fixed number of work hours a day will act as a demotivating factor.

The training programme will be appealing to some workers: those who according to McGregor are self motivated (Theory Y) will see training as a tool to do better in their jobs and will be motivated by it. It might also help workers move towards a self-actualization level in Maslow's hierarchy.

The flatter structure will appeal to Theory Y workers – who should want to get involved in decision making.

An appraisal system to review targets and establish incentives will be motivating to most workers, but mostly to Theory X ones. According to most theorists, workers will see this incentive scheme as a way of paying attention to individual workers, yet some workers might feel threatened by the appraisal. The one week residential course could be seen as a non-hygiene factor by Herzberg, and Hawthorne/Mayo could argue that it builds team spirit in the workers.

Some could argue that the assumption that workers need incentives to work more (bonuses), puts them into the category as Theory X workers (or perceived by management as such).

The flexible hours seem to be a cause of demotivation. The strike action threat is a proof of this. Yet there are sound financial reasons for the firm to want to reduce the working hours of the production staff. The training appraisal incentives programme will motivate as long as equity is apparent to all workers. Otherwise it will bring about conflict.

[8 to 10 marks]

The discussion of the changes to workers' contracts and the incentives programme is balanced and detailed, it refers to a number of theorists, and is applied to the case study. Candidates are capable of anticipating the various effects of the proposed changes, in the light of the different theories.

[5 to 7 marks]

The discussion may be less detailed and/or less balanced. There is some reference to theorists and is generally applied to the case study. At the lower end of the band the discussion is limited, but it is still evident that candidates are familiar with a variety of theorists.

[3 to 4 marks]

There is a description of the measures and some evidence of knowledge of motivational theory although it might be limited to Theory X/Y and/or Maslow and may not be associated to the case study.

[1 to 2 marks]

A brief and general answer.

3. (a) Prepare a SWOT analysis for *SunGen Ltd* explaining each entry. [8 marks]

Strengths

- a product that is environmentally friendly and positive company image
- a parent company that helps in a variety of ways
- a prospect of future growth and profit
- wide product range
- hold minimal levels of stock
- high market share in niche market
- experienced staff

Weaknesses

- a very poor short run financial position: cash flow problems and a shortage of working capital
- the threat of the strike action
- unreliable suppliers; long delivery times
- production delays from system
- high gearing ratio
- resentment over some appointments
- production running at near full capacity
- staff concern over proposed contracts
- staff perception that there is a lack of leadership or vision
- significant overtime required to meet demand

Opportunities

- government measures that will increase the demand for solar systems
- greater environmental awareness from the public (45 % of people questioned would consider fitting some sort of renewable energy generation system)
- a rapidly growing market (20 % per year)
- few competitors

Threats

- the downturn in the economy may impact negatively on the construction and prices of houses and therefore the demand for solar systems
- a risky and limited market (still developing; a niche market)
- geographically dispersed market
- rapid growth in the market may attract new firms

For each point raised, candidates should explain why it represents a strength, weakness, opportunity or threat.

[7 to 8 marks]

The SWOT is well balanced and complete with a variety of relevant entries in every category. The Opportunities and Threats are external, while the Strengths and Weaknesses are internal. Entries are generally explained.

[3 to 6 marks]

At the top end of the band the SWOT is essentially complete and the classification of Strengths and Weaknesses as internal and Opportunities and Threats as external is generally correct. However, the analysis may not be completely balanced and some entries might not be explained. At the bottom end of the band there may be some confusion between internal strengths and weaknesses and external opportunities and threats with a tendency to listing without explaining.

[1 to 2 marks]

A limited and/or incomplete SWOT.

- (b) **Suggest an appropriate marketing mix to target solar panels at individual households, justifying the choices made for each element.** [8 marks]

Product: since the panels can be fitted anywhere, size should be considered. They should not be too big, to allow transport in cars. They should be light, to allow individual customers to handle them in the stores. They should also be painted in neutral colours to match a variety of houses.

Price: because they are cheap to fit, they should also have a low initial price. Penetration strategy should be used to convince people to use them – and because they are competing with electricity. This price should be taken into account. A skimming pricing strategy could also be argued, given a very high electricity price.

Promotion: word of mouth (neighbour to neighbour). Certain magazines – specialized ones. Point of sales promotion in Do-It-Yourself stores. Internet (a web site). Could be advertised on the radio (cheap) – aiming at a workers’ audience that might be the right market.

Placing: hardware stores, the Internet, a web site with delivery to homes could work. *SunGen Ltd* may need to consider licensing firms as agents/installers as the panels may need to be professionally installed.

Candidates will be free to come up with their own marketing mix. More elements can be introduced, as long as they are related to the case study and properly justified.

[7 to 8 marks]

A complete and creative marketing mix, with **at least** four elements, showing knowledge of the case study and each element is properly justified.

[5 to 6 marks]

All the elements of the marketing mix are considered and relevant to the case study, although some might be poorly justified.

[3 to 4 marks]

The marketing mix is incomplete, or some of the elements are not well justified.

[1 to 2 marks]

A brief and general answer.

4. *SunGen Ltd* has both long-term and short-term financial problems.

- (a) Analyse the short-term financial situation of *SunGen Ltd* and make one recommendation for improvement. **[6 marks]**

SunGen Ltd is very short of working capital. It has a current ratio of 1.1:1 when it should have a ratio above 1.5:1 for relative safety. Its acid test ratio is only 0.6:1 rather than 1:1. To improve its liquidity position *SunGen Ltd* should look into improving its operations first, so that the panels can be installed/delivered quickly with prompt payment.

To deal with the situation in the short run they can also try and delay payment to their suppliers or obtain short-term financial facilities from the bank (extension of overdraft).

[5 to 6 marks]

Accurate analysis of the short term financial position with clear identification of the problems. A relevant solution is proposed and for **[6 marks]** is justified.

[3 to 4 marks]

The short-term financial position of the firm is identified as poor, but analysis may be lacking detail. A relevant solution is identified but may not be justified.

A maximum of **[3 marks]** if no solution is identified.

[1 to 2 marks]

A limited and general response.

- (b) Evaluate the options available to *SunGen Ltd* to fund the proposed expansion of their production facility (*line 138*). **[10 marks]**

SunGen Ltd could use either external or internal sources of funds. However, their room to manoeuvre may be a little restricted by their situation. They already have a substantial loan and their gearing ratio is nearly 70 %. They are not able to issue shares as they are a wholly owned subsidiary of Electrical Solutions plc. They are still making losses and so using the profit reserve is also not an option. The options they have to raise the funds may include:

- internal investment from Electrical Solutions plc. They may be able to use profit and cash reserves to help fund further expansion of *SunGen Ltd*, but the Electrical Solutions shareholders will be looking for an adequate return
- sale and leaseback – *SunGen Ltd* may be able to sell some assets and lease them back. This may provide some short-term capital. They could also sell assets, but this is unlikely to be viable given the rate of their expansion
- mortgage – it is possible that they could mortgage some of their fixed assets, and with fixed assets of \$1.3m, this may have the potential to raise significant capital. However, the viability of this option will depend on the current ownership of the fixed assets

- joint venture – they could perhaps undertake a joint venture, for example, with the firm installing the machines. This may raise some capital
- government grant – they may be eligible for some national or local government grants because of their environmental profile
- *any other relevant method (though this must be in the context of the case study).*

[8 to 10 marks]

Detailed evaluation of a variety of relevant sources of finance including internal and external sources. The evaluation is related to the case and appropriate to the financial context of *SunGen Ltd*. Business terminology is used appropriately throughout.

[4 to 7 marks]

Some sources of finance are evaluated and they are generally related to the case and appropriate to the financial context of *SunGen Ltd*. At the lower end of the band the sources are not evaluated and may be treated in a more general manner.

[1 to 3 marks]

A limited and essentially descriptive answer that may consider some sources of finance though these may simply be listed and not appropriate to the financial context of the firm.
